

INSPECTOR GENERAL

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MEMORANDUM FOR: Acting Director of Central Intelligence

VIA: Executive Director  
Inspector General  
General Counsel  
Deputy Director for Administration

FROM: Edward L. Sherman  
Director of Finance

SUBJECT: Proposed Headquarters Notice - Internal  
Accounting and Administrative Control Directive

1. Attached is a recommended Headquarters Notice which would prescribe Agency policies and standards for internal controls as required by the Federal Managers' Financial Integrity Act of 1982 (PL 97-255, approved 8 September 1982). The intent of internal controls is to reasonably ensure effective control over, and accountability for, assets and make certain of the day-to-day involvement of Agency chains of command in the process of appropriate authorization and approval, consistent with standards prescribed by the Comptroller General.

2. As further required by the Act, the Director of Management and Budget has established guidelines that the head of each executive agency shall follow in evaluating the internal control systems of the Agency to decide whether the systems are providing the necessary effective control and accountability for assets. By 31 December of each year (beginning in 1983), the head of each executive agency, based on the foregoing evaluation, shall prepare a statement on whether the internal control systems of the Agency are in compliance with the requirements of the Act. If the head of an agency decides the systems are not in compliance, the statement shall include a report identifying any material weakness in the systems and describing the plans and schedule for correcting the weakness. All statements and reports will be signed by the head of each executive agency and submitted to the President and Congress.

3. Essentially, the Federal Managers' Financial Integrity Act is an expansion of the Budget and Accounting Procedures Act of 1950. It is a positive effort to transform the expectations of the 1950 Act into reality by a fixing of personal responsibility and definition of requirements for reducing fraud, improving management controls, and eliminating errors in the administration of Government programs. This Agency is in substantial compliance with the requirement for systems of

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internal controls through its organizational structure and regulatory system. The assignment of individual authorities and responsibilities to senior Agency officials for activities within their organizations provide the on-going planning, direction, and control mechanisms for evaluation of the effectiveness of our systems throughout the Agency.

4. The OMB guidelines require a periodic review of the susceptibility of a program or function to the occurrence of waste, loss, unauthorized use, or misappropriation. Such reviews are known as vulnerability assessments and are the mechanism with which an Agency can determine the relative potential for loss in programs and functions and schedule internal control reviews and related action. Although not specifically addressed in the proposed notice, it is intended that these assessments be accomplished by the Executive Committee based on their own working knowledge of the programs and administrative functions, their general impressions about the control environment, and the effectiveness of existing controls. This can be done at periodic sessions of the Committee called to review selected subjects such as operational approval and regulatory systems, etc. The requirements for vulnerability assessments are that: (1) the process and the major considerations in determining the relative rankings are documented and (2) the Agency head will approve and defend their rankings.

5. In sum, publication of the proposed notice will formalize the structure and methods of the Agency's internal control systems. It provides for annual statements, assessing the operation of these controls, to be prepared by the Directors of ICS and NIESO, Deputy Directors, Heads of Independent Offices, and the Director of Finance. The statements will be submitted to the Executive Director through the Inspector General and will serve as the basis for your report to the President and Congress. A proposed internal control statement has been prepared as an attachment to the notice.

6. Given your approval of this document and any revisions that may be required, I will forward the final version to Regulations Control Division, OIS, for processing and publication under your signature.

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Edward L. Sherman

Attachments As Stated